Due to the current bailout of the airline industry, the biggest carriers had to face criticism for their enormous share buybacks over the last few years. Even though share buybacks are an essential part of capital markets, this post won't be a discussion whether buybacks are right or wrong.

Instead, this post uses the fantastic data Intrinio provides to look at how big those buybacks actually were. Furthermore, you will see why those buybacks were needed to offset dilution. If you are interested in more data driven research, check out my blog at findstox.com.

I used the Intrinio API in R to access all the data. Using the API is very straight forward, as you only need to plug in your api key.

I packed the API call into an function, so I can easily change the stock or ratio that I want to look at.

* Insert Code

Since airlines seem to have consolidated in recent years, which even lead Warren Buffett to invest in the sector, this research focuses on the full cycle. Furthermore, this blog post uses ‘weighted diluted shares outstanding’ as its key metric. The main reason is, that many companies utilize share buybacks just to offset dilution. In the case of airlines, that makes total sense since many airlines issued preferred shares to improve their financial position.

Looking at shares outstanding shows massive dilution after the financial crisis in 2008. As can be seen in the chart below, all major airlines have been reducing their outstanding shares since then. However, most airlines are still far from levels before the financial crisis.

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By plotting each airline on a separate y-axis, it’s easier to analyze each individual airline. As we can see in the graph, Southwest seems to have weathered the previous crisis very well and did not have to issue a lot of shares. Shareholders of Delta, however, had to accept massive dilution during 2009 and 2010.

United, on the other hand, nearly trippled its weighted diluted outstanding shares from a low of 126.7 million in January 2009 to 371.7 million in 2011. In 2016, United seems to have started its share buybacks, thereby reducing shares outstanding from 367.1 million to now 258.8 million.

The only major airline with disciplined capital allocation, seems to be Southwest. Over the previous cycle, they managed to reduce shares outstanding from 741.7 million to 538.6 million.

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To better illustrate how massive dilution compares with recent share buybacks, I plotted the Year over Year percentage change. One doesn’t need to be a genius, to see that share issuance in the not so distance past dwarves the recent share repurchases.

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To get a better look at the most recent share buybacks, I zoomed in on the time between 2014 and now. As we can see, American was amongst the most aggressive repurchasers of its shares. The same applies for United, whose repurchases were much more recently, however. On the other hand, there are airlines like Spirit. They didn’t reduce their outstanding by a lot, even though they don’t pay a dividend and only used share buybacks to return capital to shareholders. They mainly used available funds to grow their operations.

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In hindsight, it would have been smarter if airlines would have used their funds to improve their balance sheets and improve liquidity. Of course, nobody could have expected the current corona crisis. With the airline industry being hit especially hard, even Warren Buffet recently divested his holdings. Even with government help, most major airlines already had to issue shares at the current historic lows. Over the coming weeks, shares outstanding will increase tremendously again. As a result, the share buybacks over the last few years will look miniscule compared to what we will see in the coming months.